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COMMISSION ON TRANSNATIONAL CORPORATIONS
Intergovernmental Working Group of
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of Accounting and Reporting
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DRAFT CONCLUSIONS

Global developments

1. Representatives were familiar with the work of the International Accounting Standards Committee (IASC), and many countries had adopted its international standards as national standards. However, a specific country may adopt accounting standards that do not coincide fully with international standards to cover specific situations in that country, or there might be regional differences which in turn lead to exceptions to IASC guidelines. The reasons might be socio-economic, cultural, legal, or political. National practices where there are exceptions to IASC standards could be found in the following areas, for example:

- Inflation accounting and adjustment of prior-year results for the purpose of comparability;

- Foreign currency translation;

- Islamic banks in certain countries have replaced the concept of interest with the concept of profit;

- Transition from a centrally planned economy to either a market economy or a socialist market economy.

2. It could not be expected that one single international standard could cover the needs of every situation in such diverse conditions. However, the Group recognized that there must be some common ground or core elements which should be embodied within "global" standards, or minimum standards which would ensure that any user worldwide could achieve a high degree of understanding of financial statements regardless of their country of origin. Furthermore, it should not be expected that one country should require another country to conform in every detail to its own standards; there must be a reasonable degree of flexibility. If there is one set of "minimum requirements", with minimum adequate disclosures, a basic understanding of all financial statements could be achieved, and countries could accept the accounts of other countries as being in conformity with these requirements. Greater detail within the notes to financial statements would enable users to draw their own conclusions where there is a divergence from international standards, or the notes could even quantify these differences if they were material or significant.

3. Concern was expressed over the erosion of confidence in the profession by the public. This was due to a number of highly publicised major financial failures, which had questioned the role of the profession. The profession must ensure that the highest level of professional ethics and standards is practised.

4. The Daimler-Benz share listing on the New York Stock Exchange, as reported in the global paper (E/C.10/A.C.3/1994/2) was debated. Some experts felt that this was only a bilateral negotiation. However, there was a consensus that the negotiated settlement was of such significance that it had important implications for the future. Some experts thought this matter should be researched more thoroughly by the Group.

National developments

5. The Working Group noted with concern that the responses to the survey questionnaire that had been circulated to all member Governments in late July 1993 had been much poorer than in previous years. This situation was partially caused by the relocation of the former Transnational Corporations and Management Division from New York to Geneva in September 1993. In addition to sending future questionnaires to member States through their missions in Geneva, the Working Group agreed that the secretariat will identify as many appropriate individuals as possible to establish focal points in countries to whom questionnaires will be sent.

6. Several interventions were made by the experts about current developments in their respective countries, and this supplementary information will be included in International Accounting and Reporting Issues: 1994 Review.

Privatization

7. Some of the experts described aspects of the privatization programmes in their countries. A suggestion was made that it would be useful if the case studies written in 1992 were updated with current research based on subsequent events. Others felt that additional case studies might be useful and case studies could be solicited from experts in the Group, particularly from developing countries.

Leases

8. Several experts described the methods of accounting for leases in their countries. The primary issues related to the necessity to follow the legal form of transactions rather than account for them in accordance with their substance.

9. The Group recognized the ongoing disparity between the use of IASC's Accounting for Leases (IAS 17) and alternative practices which treat all lease payments as expenditures in the profit and loss account. Lease accounting is a good example of the situation whereby the definitions of assets and liabilities are not clear and are open to interpretation. Furthermore, differing taxation treatments between leases and the purchase of assets with debt or equity can considerably influence the means of acquiring the benefits from fixed assets.

10. Furthermore, it was noted that enterprises can arrange the legal form of transactions so that the intent of the guidelines is circumvented. Also, some countries are unable to adopt international standards because their legal systems do not allow certain accounting treatments: for instance, the recording of a leased item as being an asset belonging to the lessee.

11. It was noted, that some of these difficulties could be overcome by allowing a different approach to be used for group accounts from that used in individual company accounts. Under this approach, group accounts are drawn up by taking an economic approach and putting substance over form. Therefore, in group accounts a lease can be reflected in the balance sheet of the lessee. Furthermore, non-cancellable long term lease obligations should be adequately disclosed in individual company accounts. On the other hand, due to specific legal requirements in some countries, it may be more appropriate to disclose the leasing arrangements in the notes.

Government grants

12. It was considered that the title and reference throughout the paper to "concessions" was misleading because in certain countries "concessions" means the right bestowed upon an enterprise to carry out a commercial activity without actually owning the underlying asset from which the income is generated.

13. It was suggested by some of the experts that the topic of accounting for government concessions should be added to the agenda for a future session.

14. On the topic of government grants, it was pointed out that there are two quite distinctive accounting treatments, both of which were equally acceptable. Adequate disclosure should allow comparability between the two accounting treatments. Therefore, it was agreed that the conclusions reached by the Group in a previous meeting should not be amended.

New financial instruments

15. The Group concurred that this is a very complex matter,and noted that formulae, when used in valuing financial instruments, could have a significant impact upon both profitability and the balance sheet when the parameters of the formulae are altered. It was suggested that there are other pricing models besides the Black-Scholes model. The paper had concentrated on this particular model because it had gained acceptance by the United States Financial Accounting Standards Board (FASB) and the IASC had suggested its use. The model is relatively widely accepted globally, but it is not endorsed as the only model for use.

Accounting education

16. In response to the resolution adopted at the eleventh session of ISAR on global qualification standards and professional accreditation for accountants
and auditors which would be endorsed by the United Nations, and on a multilingual world dictionary of accountancy, the International Federation of Accountants (IFAC) sent a written response to the Group. Additionally, representatives from that organization were present at the twelfth Session to expand upon the written response.

17. IFAC welcomed the opportunity to cooperate with ISAR, and in particular to have the representation of the Group at IFAC's forthcoming Task Force meeting, which will deal specifically with the needs of developing countries. IFAC felt that it does not have the requisite legal mandate to act as an international accreditation body, nor does it consider a multi-lingual global accounting dictionary to be a priority project because there are many bilingual dictionaries and at least one multi-lingual dictionary in existence. Further, to enhance the professional qualifications of accountants in many countries would require resources beyond the capabilities of IFAC.

18. The Group was disappointed with this response and concluded that an initiative for global accreditation by the United Nations should be investigated. In this regard, it was proposed that a sub-group be formed with a mandate to investigate the feasibility of global professional accreditation. During the drafting of the terms of reference, the sub-group was requested also to consider the question of education and accreditation of accounting technicians.

The General Agreement on Trade in Services (GATS)

19. The Group notes that a Working Party for Professional Services is proposed to be established under the General Agreement on Trade in Services (GATS). The
Group recognizes that ISAR represents ECOSOC on accounting and reporting matters as a unique forum where, based on the principle of sovereign equality of all states and the universality of its membership, the community of nations can
address all issues in an integrated manner. The Group expects that this Working Party, in respect of its work on accounting matters, will establish close cooperation with ISAR so as to eliminate avoidable duplication.

Environmental disclosures

20. The Group appreciated the report of the secretariat, which excited a lively discussion. Some experts felt that in many countries environmental disclosures were given in different forms and for different purposes, and it became difficult to quantify environmental matters in pure financial terms. However, as industrial pollution is increasing and corporations are engaging in activities which cut across national boundaries, their environmental impact is becoming more and more important.

21. The Group felt that there must be continuing and more intensive discussions on the question of environmental disclosures and this matter should be the subject for discussion at the next session of ISAR.

22. It was felt that some of the findings in the report of the secretariat could be misleading, as some environmental information was not included in the annual report to shareholders even though it may be included in special purpose reports which were generally available.

Review of the 1988 UN publication, "Conclusions on Accounting and Reporting by Transnational Corporations"

23. The Group reviewed a draft of an updated document which summarizes its conclusions on accounting and reporting standards. Five topics discussed since the publication of the original document were included in the revision. The -
Group agreed to the issuance of the revised document.